New Directions for Local Government Finance:

THE NEXT STEPS

PART 3

Province of
British Columbia

Ministry of Municipal Affairs, Recreation and Culture,
Hon. Lyall Hanson, Minister

91-00464/

Province of British Columbia

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August 1990

It is my pleasure to release the third discussion paper in the series, *New Directions for Local Government Finance: The Next Steps*, Part 3 — Maintaining the Dialogue: Partnership and Communication in Property Taxation and Local-Provincial Finance.

This publication is the continuation of a commitment of government to review effective communication between the Province, local government and the taxpaying public. It looks at the process of consultation and communication in determining provincial policies, and suggests options for increasing the involvement of local taxpayers in setting tax policy. In addition, the report looks at the design of the tax notice, the taxpayer's most immediate contact with local government for tax information, and examines different tax collection methods.
I sincerely hope that you will take time to give us your reactions to the policy options set out in this paper. Please address all correspondence to:

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Consultations with the ministry can be arranged on request.

Yours sincerely,

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NEW DIRECTIONS FOR LOCAL GOVERNMENT FINANCE:

PART 3 — Maintaining the Dialogue: Partnership and Communication in Property Taxation and Local-Provincial Finance

EXECUTIVE SUMMARY

This paper examines the process of consultation and communication between the Province, local governments and the taxpayer.

There are three underlying themes: consultation and communication at the political level; citizen involvement; and the provision of information to taxpayers in a form that is easily understandable. Central to the discussions is the belief that information is the key to involving taxpayers, be they individual home owners or large industrial concerns, and the provincial and local governments in an effective partnership.

Extensive consultation among stakeholders during the course of policy development has been the norm. The continued importance of consultation and communications was a major theme of the Financing Local Government Study which recommended a more formal approach to provincial-local government consultation on policy matters.

However, the bi-lateral approach suggested in the Financing Local Government Study would result in a more formalized process of regular consultation between local governments and the Province, and would change the focus of debate from elected representatives of the people to private, executive-level discussions between the Province and the Union of British Columbia Municipalities.

Consultation cannot replace the decision making powers of duly elected provincial officials; rather, the process must involve all stakeholders and be advisory in nature.

The paper discusses a number of ways for improving on-going consultation including the creation of technical advisory groups to deal with specific interests such as small business or the utility industries. A ministerial advisory council could advise the Minister on current issues.

The paper also offers a model for taxpayer involvement in local tax decisions whereby municipalities could adopt an official framework for municipal fiscal policy. This financial plan could become a central planning tool for local government, and at the same time, encourage the involvement of individual taxpayers in the policy process at the local level. The Ministry would be interested in facilitating pilot projects in interest municipalities.

Finally, the paper offers a number of ideas on how to improve the flow of information to the taxpayer. Suggestions include making the language of tax notices clearer and adopting a credit card model of tax billing and collection. The latter would itemize how much taxpayers were being charged to cover particular services such as schools and policing.

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MAINTAINING THE DIALOGUE:
Partnership and Communication In Property Taxation and Local-Provincial Finance

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British Columbia

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Canadian Cataloguing in Publication Data

Main entry under title:
New directions for local government finance

Contents: pt. 1. Dealing with a changing environment — pt. 2. Revenue sharing — pt. 3. Maintaining the dialogue — pt. 4. Towards a new assessment act — pt. 5. Planning for the 1990s.

ISBN 0-7726-1176-9 (set). — ISBN 0-7726-1177-7 (pt. 1). — ISBN 0-7726-1178-5 (pt. 2) — ISBN 0-7726-1179-3 (pt. 3). — ISBN 0-7726-1180-7 (pt. 4). — ISBN 0-7726-1181-5 (pt. 5)

1. Municipal finance — British Columbia. 2. Municipal finance — Law and legislation — British Columbia. 3. Real property tax — British Columbia. 4. Tax assessment -- British Columbia. I. British Columbia. Ministry of Municipal Affairs, Recreation and Culture.

HJ9014.B7N48 1990 336'.014711 C90-092212-5

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1. PURPOSE

This report discusses effective communication between governments and the taxpayer.

The purpose of this paper is to discuss the effective exchange of ideas and information between the provincial government, local governments and taxpayers; the involvement of local taxpayers in decisions that impact their tax levels; and the clear, effective communication of information about local taxes and services to taxpayers.

The paper has three major themes.

First, it looks at the process of consultation and communication between local government, the Province and taxpayers in the setting of provincial policies affecting local finance. Recommendations are made on how local governments and taxpayers can be more effectively involved in decisions that impact local taxation.

Second, it addresses the question of how local citizens can become more involved in the setting of local tax policy. Local governments in British Columbia now have broad autonomy to determine tax policy. As a result, the process by which those decisions are made is becoming increasingly important.

Third, the paper deals with the communication of information regarding taxes to those who must pay. This section has two thrusts. It examines the design of the tax notice -- the key vehicle through which tax information is conveyed to citizens -- and it looks at alternative methods of paying the tax, methods designed to indicate more clearly the wide variety of agencies that use the property tax, and to provide for greater taxpayer convenience.

2. OVERVIEW

Local government finance by its nature involves a very large number of players.

The provincial government sets the legislative basis on which both it ar ' local government impose taxes and charges for a wide variety of local services.

Within this context, a large number of local government entities finance a wide range of local services. Financing arrangements can range from the City of Vancouver's tax rate bylaw, which raises over $200 million to finance many of the services provided by the city, to the Poplar Grove improvement district under which 22 residents provide domestic water to a small rural area.

Property taxes so imposed are paid directly by all British Columbia land owners (and in some cases lessees) and indirectly by renters. Taxpayers vary from large corporations to individual home owners.

Managing a system with so many participants requires a well developed means of sharing ideas and information to support the decision-making process.

The various governments involved must share information and ideas in order to develop financial policies, determine if policies are operating effectively and ensure that when changes are required, they are introduced in a way that provides for their effective implementation in a wide range of settings.

Taxpayer involvement in determining local tax policy allows such policies to better reflect the values of the community.

Local government finances myriad services.

Taxpayers include large corporations, small businesses and home owners.

The provision of clear information to taxpayers tells them about the way services are supplied and financed. This, in turn, can improve taxpayer understanding of local government operations, and provide for more effective taxpayer participation and responsive government.

3. PROVINCIAL-LOCAL CONSULTATION

3.1 Background

Consultation with stakeholders has predominated in policy development.

The provincial government has consistently, over a number of years, dealt with major changes to local finance in a way that has provided for broad input from a range of interested groups including residential and business taxpayers, and local governments.

The 1974 creation of the British Columbia Assessment Authority was preceded by the report of an all-party committee of the Legislature which itself followed public hearings on this issue.

The 1978 decision to base property taxation on market value reflected the recommendations of the *McMath Commission of Inquiry Into Property Assessment and Taxation* which conducted over 43 public meetings before making its recommendations.

The 1983 decision to introduce variable tax rate powers for municipalities followed another series of public meetings conducted by the Ministers of Finance and Municipal Affairs.

The 1985 decisions to remove property taxation from machinery and equipment, and to reduce industrial and businesses' property school tax rates followed a series of public meetings on taxation and economic development conducted by the Minister of Finance.

The 1987 decision to revise the basis for the assessment of industrial property followed a review of the question by a special committee drawn from a wide range of business and professional backgrounds that included municipal representation.

The 1990 decision to permit municipal residential flat taxes and separate municipal taxes on residential land and improvements followed two events. One was the Property Tax Forums, conducted by the Minister of Municipal Affairs, Recreation and Culture and the Minister of Finance and Corporate

Relations. The other was the release of the *Financing Local Government Study*. Also in 1990, came the decision to alter the way school districts were financed. This followed both the above-mentioned processes and the previous Report of the Royal Commission on Education, which itself was written after a series of public meetings.

3.2 *Financing Local Government* Recommendations

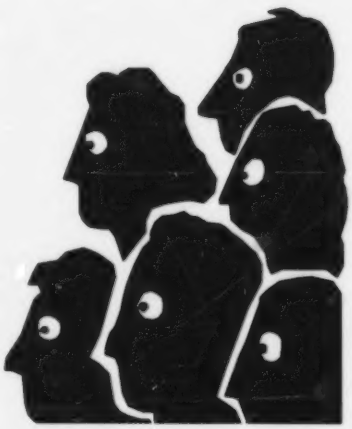
The importance of consultation and communications was a major theme of the *Financing Local Government Study*.

The *Financing Local Government Study* made a number of recommendations regarding provincial-local consultation and communication. The *Study* recommended:

- the development of a provincial-local protocol agreement on intergovernmental finance relations outlining a joint approach to fiscal affairs;
- an annual pre-budget meeting of ministers and the UBCM executive to address financial issues, with the UBCM continuing to rank issues following the annual convention;
- semi-annual meetings of officials drawn from the UBCM, the Ministry of Municipal Affairs, Recreation and Culture, the Ministry of Finance and Corporate Relations, the British Columbia Assessment Authority and others to anticipate, monitor and discuss issues of concern;
- that information on such things as entitlements and grant calculations be made more accessible; and
- the ministry's statistical reporting include analysis as well as data with encouragement for the ministry and local government to work together to make the information more timely and useful.

In a nutshell, *Financing Local Government* outlined the case for a tighter, more formal approach to intergovernmental consultation and provincial policy making.

3.3 Discussion



The approach the provincial government has taken to consultation over the past 15 years has the important advantage of involving a broad cross-section of British Columbians. The town hall public meeting, that has been used on numerous occasions by ministers considering property tax changes, provides for public input from ordinary taxpayers, municipal officials and representatives of large and small business on an equal basis in an open setting.

However, a serious drawback to this approach is that it is only practical on very major policy issues. As a result, it does not always provide a sufficiently broad and comprehensive basis for consultation on a number of locally or sectorally important but less sweeping questions concerning local finance. Consequently, there have been a number of instances where provincial policy changes -- often made in response to concerns raised by particular taxpayer groups or local governments -- could have benefitted from more in-depth or broader consultation with other affected groups.

The consultative approach suggested in the *Financing Local Government Study* would create a much more formalized process of regular consultation between local governments and the Province.

In response to *Financing Local Government* recommendations, the provincial government will initiate discussions with the UBCM to develop additional ways in which the two levels of government can work together to advance consultation on provincial-local fiscal relations.

These discussions could include review of many of the suggestions made in *Financing Local Government* including: annual ministerial-level meetings, semi-annual meetings of officials; an improved flow of factual information; and provision of statistical analysis.

However, the *Financing Local Government* proposal for a local-provincial protocol agreement raises difficult issues for the Province. These relate to the way in which it changes the focus of debate on particular matters of provincial policy from the elected members of the Legislature to private executive-level discussions between government ministers and the UBCM executive.

Such a forum is too narrow, particularly when the matters under debate can have a substantial impact on private citizens and businesses. This was shown by the *Financing Local Government Study* itself, which, although it represented an ambitious initiative in local-provincial consultation, also had important shortcomings.

For example, the *Study* did not consider what other actions, such as provincial tax increases, would be required to implement its recommendations. It did not involve taxpayers or provide for consideration by members of the provincial Cabinet or debate by members of the Legislature. All these factors are essential for a provincial decision on significant local fiscal issues.

This is not to say that consultation with local government should not be improved. However, taxpayers should be involved in that process and it should be made clear that the role of such consultation is advisory in nature.

There are a number of possible ways to achieve this outcome.

3.4 Improved Information on Property Tax Trends

Information will improve the public's understanding of underlying trends.

One way of structuring discussions regarding property taxation is to publish a regular analysis of the property tax implications of the assessment roll, together with a discussion of current assessment and taxation issues each time a new assessment roll is prepared. The publication would clearly identify property tax shifts that would occur in the next year if no offsetting actions were taken by the provincial and local governments. It would also identify issues that had arisen during the past year with respect to

assessment and property taxation including risks to the tax base posed by issues raised during assessment appeals. This public information could then function as a tool for provincial and local decision making.

The report would provide decision-makers with a focus on property tax questions at an appropriate time in the taxation cycle. This would allow them to choose not only the actions which they wish to pursue, but also the appropriate means of consulting with affected persons and groups on issues raised in the report and responses to it.

3.5 Technical Advisory Groups

Technical advisory groups could deal with specific interests.

Under this approach, a number of technical advisory groups would be formed to advise the British Columbia Assessment Authority and the Ministry of Municipal Affairs, Recreation and Culture on various aspects of property tax policy. Such groups would represent organized interests such as small business, major industry and utilities.

This would build on existing committees which the Authority has established to deal with questions relating to the assessment of major industry and utilities property.

This approach does not provide for consultation with other than organized interest groups. Consideration of broader interests would remain with both local and provincial politicians who could then use devices such as the public town hall meeting to assess public views on particular issues.

This would provide little formal representation on the concerns of residential taxpayers who typically will not be represented on the technical committees. Yet many business observers would argue that local and provincial politicians are keenly aware of the views of residential taxpayers and that businesses, which are taxed at significantly higher rates, have too little say in how property taxes are determined.

There are also other difficult issues raised by this approach. In particular, it relies heavily on private discussions between government and business

officials. This means that information is conveyed only indirectly to elected officials. In addition, it does not provide a place where dialogue among local, provincial and taxpayer interests can be heard, but instead relies on political decision-makers to receive input from various independent sources and judge the validity of various views. While this would need to occur at some point, providing a forum for various perspectives to be discussed could provide for increased dialogue and possibly an enhanced understanding of different points of view.

3.6 Ministerial Advisory Council

An advisory council would brief the Minister on relevant issues.

Another option is to create a ministerial advisory council that would advise the minister responsible for property taxation on current issues. The council could meet annually after the production of the assessment roll to discuss issues that arose during the preceding year and new issues brought about by changed assessments. Council members could also be consulted less formally on a more regular basis by the minister. In addition individual members could be called upon to advise the minister on their particular areas of interest or expertise.

Representation on such a group could be drawn from the Province, local government and business and could include individuals appointed specifically as taxpayer advocates to ensure that the perspective of home owners was strongly represented.

3.7 In Conclusion

This chapter focused on how local governments, the Province and organized groups could improve communications. The next chapter will focus on the missing link in the process - the individual residential taxpayer - and suggest a role for a financial plan as a method of increasing citizen participation.

4. CITIZEN PARTICIPATION IN LOCAL TAX DECISIONS

4.1 Background

The introduction of variable tax rates in 1983 gave British Columbia municipalities broad local tax rate-setting powers. These powers were further expanded in 1990 with the introduction of options for separate tax rates on residential land and improvements and the residential flat tax.

These augmented long-established local powers to finance specific services through user charges or specified area-benefitting charges, including area-specific frontage and parcel taxes. They are also in addition to local powers to impose development cost charges for particular local purposes.

Municipalities also have the power to provide specific exemptions for particular types of property.

Local taxes are very significant. They represent about 15% of combined local-provincial revenue and nearly 9% of all the taxes paid by British Columbians to all governments. As a result, the way in which they are applied can have a substantial impact on the overall tax level and its distribution.

4.2 Discussion

Taxpayer participation encourages informed decision making and accountability.

The process for making decisions regarding these taxes varies. Decisions regarding variable tax rates, separate residential land and improvement taxes and the residential flat tax are made as part of the municipal budget process and implemented through the annual tax rate bylaw. User fees and both parcel and frontage taxes are generally imposed in connection with decisions to provide services to certain parts of a municipality or regional district and are directly related to the cost of the service and the benefit it provides to users. Development cost charges are imposed in connection with council policy on new development and also relate to the cost of the service and its

benefit to users. Bylaws imposing such charges must be approved by the Inspector of Municipalities.

Over the past 8 years, the significant increase in municipal tax options has not been accompanied by the development of systematic processes for taxpayer involvement. The 1990 introduction of provisions through which local government can impose separate tax rates on residential land and improvements and a residential flat tax provides an opportunity for considering the possibility of increased taxpayer involvement in local tax decisions.

4.3 A Model for Taxpayer Involvement in Local Tax Decisions

A model for taxpayer involvement in local tax decisions could be taken from the approach to citizen participation used in regard to land use planning decisions.

Municipalities could adopt official financing plans which would state the objectives and principles that formed the framework of municipal fiscal policy. The plans could indicate:

- the financial state of the community, its fiscal goals and their costs;
- the degree to which specific services would be financed through service-specific charges as opposed to general taxes;
- the instances in which certain services would be fully or partially financed through charges on particular parts of the municipality;
- the allocation of general tax revenue among different classes of property; and

- the allocation of residential tax revenue among market value based taxation, the separate residential land and improvements tax, and the residential flat tax.

A financial plan would be a key planning tool for local government.

The financial plan could be considered in the context of other key municipal planning documents such as the official community plan, the economic strategy document and the capital expenditure program.

Such plans would provide an organized opportunity to obtain the views of taxpayers on local tax policy. They could be supported by public input-gathering techniques such as newsletters, community forums, town hall meetings and local advisory committees. Such a process would allow for input from many parts of the community. For example, local businesses would be able to present their case regarding the relationship between economic activity and taxation. Similarly, industrial taxpayers would be able to outline the significance of property taxes on their ability to provide employment for local people, and home owners would be able to express their views on their limited ability to pay. Councils would then have the opportunity to re-examine other sources of revenue or types of expenditure prior to deciding on spending and revenue plans.

Planning of this type could integrate local tax policy with other local policies, thereby providing opportunities for significantly improving overall local government effectiveness.

However, it is not intended that local government be required to complete such plans. Instead it is suggested that local government consider the usefulness of this approach in particular settings. If there is a reasonable amount of positive reaction to it, the government will consider the actions it can take to facilitate the development and implementation of such a planning approach by particular local jurisdictions. One way of doing this would be to support pilot projects in particular jurisdictions.

5. PROVIDING INFORMATION TO TAXPAYERS

5.1 Tax Notices

The tax notice is the principal vehicle for conveying information about the cost of local services to taxpayers. Although one would not expect a bill itself to become a contentious issue, the property tax notice has generated a significant amount of comment. Municipal governments have argued that because the notice includes both school and municipal taxes, they are criticized for school tax changes over which they have no control. Taxpayers criticize it as being too complicated and difficult to understand. These concerns were echoed by the *Financing Local Government Study*.

In this section, two alternative approaches to the tax notice question are advanced. The first is to follow the recommendations of *Financing Local Government* as outlined in Section 5.2. The second is to move in the direction suggested by *Financing Local Government* but to go beyond the actual recommendations by providing local government with the option of adopting a credit card model for tax notification and payment.

5.2 *Financing Local Government* Option

Financing Local Government put forward a proposal to:

Clarity of information is essential to good tax notice design.

- retain a single tax notice, but make it clear that the notice is not only for municipal services, by actions such as removing the municipal letterhead;
- permit local government to design their own forms but encourage the design of a common form;
- encourage municipalities to include an information circular with tax notices explaining tax changes and the jurisdiction responsible for those changes; and

- alter the way in which the home owner grant is calculated and the way in which the impact of revenue sharing grants on property taxes is shown.

These changes move in the direction of a tax notice which makes it clear that property taxes are imposed for a wide range of purposes and not only for municipal purposes. To this extent, they move towards identifying the sources of property taxation without the cost of separate collection. At the same time, it may be possible to provide local government with the power to move more decisively towards clearer, more informative tax notices.

5.3 Credit Card Model

In a lot of ways, property taxes are like payments to a credit card company. In particular, they are a payment in respect of a number of charges incurred for different purposes but made to a single entity that has responsibility for collection. There is, therefore, a case for designing the property tax notice in a fashion similar to the bill credit card users receive from credit card companies.

A sample of such a form for a $100,000 house is shown on the following page.

PROPERTY TAX NOTICE

Your property taxes are imposed by various public agencies to pay for part of the cost of certain public services. Included in these charges are payments for about 10 per cent of the cost of public schools and that part of local municipal services that is not paid from other charges on users or grants from the provincial government.

The allocation of tax payments among properties is determined in part by the market value of your property as determined by the British Columbia Assessment Authority, subject to appeal by the property owner or lessee, and in part by decisions of the provincial government and your municipal government regarding the amount of tax to be paid by owners of residential, commercial, industrial and other specified types of property.

PROVINCIAL SCHOOL TAX

School Tax	**$500.00**	
	or **$35.00**	if you are eligible for the Home Owner Grant
	or **$0.00**	if you are a senior or otherwise eligible for the additional Home Owner Grant
School Board Referendum Tax	**$25.00**	

CHARGES FOR LOCAL SERVICES

Policing	**$100.00**
Fire Protection	**50.00**
Roads	**100.00**
Parks	**50.00**
Recreation	**200.00**
Water	**20.00**
Waste Treatment	**50.00**
Planning	**5.00**
Administration	**5.00**
Other	**15.00**
	595.00

CHARGES IMPOSED BY OTHER AGENCIES

Assessment Authority	**4.90**
Finance Authority	**0.10**

TOTAL	**$1,125.00**	
	or **$660.00**	if you are eligible for the Home Owner Grant
	or **$425.00**	if you are a senior or otherwise eligible for the additional Home Owner Grant

Such a tax notice could be accompanied by a brief brochure which outlines the way in which particular services are supplied and financed.

The sum of the two documents would supply taxpayers with concise information on the nature of the payments for which they are being billed.

The message conveyed by the tax notice -- that payment was being made to a common collector for a number of services -- could be reinforced by providing for additional payment options such as payment through financial institutions. Such payment options would also increase taxpayer convenience, allowing them to make payments at local banks and through banking machines, thereby avoiding the lineups at municipal halls and government agents offices, that are so prevalent at property tax payment time.

It may also be possible to allow taxpayers to make payments on a monthly basis through pre-authorized electronic funds transfer, thereby allowing taxpayers to avoid the cash-flow problems associated with annual payment.

Measures extending such an option to local government would need to be designed in careful consultation with local government officials. However, if a practical way can be found for their implementation, such an approach could go a long way towards better informing taxpayers of the nature of the payments which they make through their property taxes. To this end the Ministry of Municipal Affairs, Recreation and Culture will be asking the UBCM to establish a committee of municipal officials to explore these options with ministry officials and representatives of the provincial Surveyor of Taxes. Implementation of these new options will be approached carefully, possibly through pilot projects in particular municipalities.